Telecommunications Audit Department
Carrier Compliance

Missy Sue Mastel, CPA

Mass-Tel Communications

760 Market Street, Suite 315
San Francisco, CA 94102
Tel. (415) 820-9070
Fax (415) 820-9075
missysue@masstel.com

FINAL

Auditors Report: FCC Order 96-128

We have examined the accompanying description of the controls at Locus Telecommunications, Inc. ("Locus") applicable to recordkeeping, reporting, and payment provided to payphone service providers serviced through the switch. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of Locus's controls as it related to PSP compensation, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and (3) such controls have been in place since September 30, 2004. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned controls of Locus, presents fairly, in all material respects, the relevant aspects of Locus's controls that have been placed in operation since September 30, 2004. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that dial around compensation objectives, as documented in FCC Order 96-128, would be achieved if the described controls were complied with satisfactorily and third parties applied those aspects of internal control contemplated in the design of Locus's controls.

In our opinion, the controls that we tested are operating with sufficient effectiveness to provide material and reasonable assurance that the control objectives were achieved during the period between July 1, 2004 and September 30, 2004.

The relative effectiveness and significance of specific controls at Locus and their effect on assessments of control risk for PSPs are dependent on their interaction with internal control, and other factors present at PSPs and PSP aggregators, as well as the internal controls of third parties involved in Locus' processing of PSP dial around compensation. We have performed no procedures to evaluate the effectiveness of internal control at any third party associated with this process.

The description of controls at Locus is as of September 30, 2004 and information about tests of the operating effectiveness covers the period from July 1, 2004 to September 30, 2004. Any projection of such information into the future is subject to the risk that,

because of change, the description may no longer portray the system in existence. The potential effectiveness of specific controls at Locus is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that (1) changes made to the system or controls, (2) changes in the processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for use by management of Locus Telecommunications, along with PSPs and other vendors of interest, the FCC in verification of fulfillment of Order 96-128, and the independent auditors associated with such organizations.

Sincerely,

Missy Sue Mastel, CPA
Lic. Number 67248-CA
Mass-Tel Communications, Inc.
March 20, 2005

Section 1: Overview of Operations and Internal Control Features

Overview of Operations

DAC is the system whereby owners of payphones are compensated when a user places a calling card or other dial-around service to place a long distance call. Every time a person uses a payphone to place a long-distance call and dials a long-distance company other than the one assigned to the payphone, the dialed company must pay the payphone owner a fee. Payphone service providers and aggregators bill the SBR or LEC by providing a list of ANIs, and the LEC and SBR match ANIs to Call Detail Records (CDRs) from the switch, and pay on all calls that require compensation. Since payment is only due on completed calls of a certain duration when dial around services are used, the carrier's CDR utility program captures all relevant data pertaining to whether the call requires DAC or not.

While Locus has been operational since 1995, procedures for compensating the PSPs were the responsibility of the underlying inter-exchange (IXC) carriers through June 30, 2004, during which time the underlying IXCs billed Locus and Locus had continued to made payments for dial around compensation to the underlying IXCs. As such, Locus Telecommunications has only recently begun to perform DAC activities directly with Payphone Service Providers.

In the quarter under review, sixteen separate PSP consolidators had invoiced Locus Telecommunications for all DAC requests. All carriers and their associated PSPs were reconciled and paid using in-house processes. We will perform procedures on these processes as it pertains to the accuracy, timeliness and completeness of the records for DAC.

General Operations

Locus Telecommunications sells prepaid calling cards under a variety of affinity programs through three separate carriers. Each type of product has its own 800 number provided by the underlying carrier, which connects to the Locus switches. These 800 numbers are printed on cards and sold to end-users. Thus, all the calls processed through the Locus switch are coinless calls, although both payphone and hotel phones are common service providers. At the time an end user places a call, the 800 number connects the call on the underlying carrier network, directs that call to the Locus switch, where the call is received, authenticated, and then sent for termination over a routing mechanism to other carriers to complete the call. The Locus switch authenticates both the user, via PIN, and the termination number, via answer supervision, before it registers the call as connected.

Locus uses 10 switches maintained in two separate switch collectives, one in Southern California and the other in northern New Jersey. As call records are processed, the

information relating to origination, requested termination, header time, and talk time are filed in the Switch database, and then downloaded real-time to the Main database.

As a switch-based reseller, Locus Telecommunications has had limited direct relationships with PSP or PSP aggregators prior to 2004. Overall, payphone service providers have relationships with the LEC, and process claims for DAC with the LEC servicing the phone. The LEC, in turn, invoices the SBR, or facilities based- reseller by tracking the delivery of the call to the switch. Locus reconciles the amount against completed and compensable calls in their switch, and pays the LEC who in turn reimburses the PSP. For APCC and other PSP aggregators, invoices of all ANIs in operation are sent directly to Locus, who then reconciles this list against calls made to determine earned compensation. ANI ownership disputes between PSPs are handled by the LEC, although in-house procedures for ANI dispute resolution have been developed.

General Reconciliation Process

Locus's reconciliation processes include managing the PSP vendors, receiving invoices relating to the BTNs under management by the various payphone providers and their associations, and submitting payments and claim reports to PSP and PSP aggregators. The PSP submits their ANIs, and invoices if available, to Locus. Since Locus Telecommunications is an SBR, and not the LEC, they do not maintain ANI ownership records or databases.

PSPs and LECs invoice their payphone surcharges quarterly, via CD ROM.

For PSPs, APCC and other PSP representatives, a list of phone numbers, or ANIs, is sent representing the phone numbers that are owned and operated by the PSPs and are thus eligible for DAC. The carrier or PSP representative lists all possible numbers, and leaves it to the reconciliation process to locate those phone numbers on CDRs and verify compensable calls.

For switch reconciliation

Each switch downloads the CDRs real-time to the Main database, which then prepares and processes the call detail for bill reporting and invoicing. These reports are kept in the system for four months at a time, the current quarter and one-month prior, and each quarter is reconciled and archived, as well. A report known as the Completed Calls Detailed CDR Report is generated on a daily basis and verified on the second day of the month following for the purposes of reconciliation, using parameters that ensure that all eligible compensation calls appear. These reports generate CDRs that are flagged "P" in the payphone field, come in on carrier specific trunks, and have a '07', '27', '70', or '29' in the info ID field. '29' is an uncommon digit identifier since it indicates a prison payphone. '00' is also reviewed for payphone services, in case these digits are forced over to accommodate a programming mismatch for a COCOT line.

The database generates the payphone flag from the info digit field, so that while a payphone indicator field is present, it is not used to filter the calls that are then compared

to the ANI look-up table for DAC. Thus, Locus uses a complete database of call detail records for comparison with the invoices from the PSP. Appears reasonable.

Locus performs reconciliation on a quarterly basis, whereby they compare ANIs reported by the PSPs to the database of calls provided by the switch reports, and validate the claims for payment by the PSPs.. Locus cross-references its payment report using the ANI and PSP ID information provided by the PSP—the SBR does not independently validate ANI ownership with the LEC. If two PSPs claim the same ANI, Locus will attempt to validate the correct owner using a Master ANI List kept by Locus, if no information is available, Locus will pay the first PSP. Disputes are settled by requesting pertinent documentation from all interested parties, including affidavits from the LEC.

Claim reports are summarized by aggregator or carrier and are reviewed by the financial directors of the SBR. Once financial management validates the report and the total, the agreed-upon amount is paid via wire transfer. Penalties for late payment are transferred at the same time. Locus makes payment to the PSPs and aggregators accordingly.

Reconciliation is an automatic process, and summary reports are generated detailing the ANI and all associated compensable calls. The CDR report is totaled for the number of records per PSP, and that number is used as the reconciled number for comparison and dispute against the carrier bill for incomplete calls.

While there are discrepancies between the call count that was sent from the underlying carrier and the final paid amount, most of the discrepancies between the carrier invoice and the CDRs stems from complete vs. incomplete calls. The invoices received from the carriers are unable to capture call completion information, and thus the reconciliation and support, if necessary, that are sent to the carriers result in significant credits from the underlying carrier to Locus in subsequent months. We reviewed past reconciliation prior July 1, 2004, when Locus paid its underlying IXCs directly for DAC, to determine that the percentage of complete vs. incomplete calls did not decrease with the procedural change to SBR payment responsibility, and also tested to ensure that the CDRs coming from the switches to the Main database were complete. Appears materially reasonable.

We noted that Locus does not perform any review of the ANI payment to ensure against calling fraud. Per discussion with Information Systems, Locus relies on the PIN authentication process to establish the validity of each call, and thus does not review their reconciliation work for fraud. We reviewed the last two reconciliations and reports and did not see ANIs with excessive usage on reconciliation. As failure to detect this fraud would result in overpayment to the PSP, we have suggested that they perform this review each month. Appears reasonable

Processing Detail

As end-users dial calls using the 800 numbers on the prepaid calling cards from Locus, the switches receive the calls from the originating carriers based on capacity and 800 number provider programming. When the 800 provider sends the call to the Locus switch, it sends the info digit and the 10 digit ANI+DNIS. The switch control host controls the switch and authenticates the call and the user PIN, and accepts the terminating number. Once the termination number is entered and validated, it is sent out over a routing program. A call record generates at the time the call hits the Locus switch, recording the header information, including origination, routing, time stamp, program, and product rate and termination information. If answer supervision is attained, then the talk time begins to record. The call record completes when the call is terminated, and is updated to the switch database in real time. Calls are attempted for 60 seconds before the call is considered incomplete and released.
If the connection between the Switch Control Host and the Switch database is broken, switch control maintains the CDR in backup until it can reconnect with the database.
The Main database server imports new CDRs and transaction records from all 10 switches in real time. The number of imports running in real time is also monitored, and discrepancies are notified.

On the third of each month, YH Chun, database engineer, runs reports out of the switch sorted by carrier and date. These reports are delimited text files run in the database (reporting interface) from the switch. When ownership of an ANI is in dispute, Locus will use the ANI Master List created from the PSP provided information, and if that is inconclusive, will pay the first owner noted. If a dispute ensues, Locus will request authentication directly from the parties involved and ultimately, the LEC. Appears reasonable.

Data Integrity

Per Tony Kim, Regulatory Compliance Specialist, and Young Ho Chun, Database Operations, all records have been kept since inception. Information related to CDRs is maintained live at the switch database for three months, and the main database keeps records for three months. After this period, all files are compressed and burned to CD and stored on-site in the Information Systems department. Regular testing of the back-up data integrity, including uploading the offline database to an archive server and restoring the data to a server, is not performed regularly, although procedures now include pulling data files from 6 months prior to the current month to ensure that the data remains intact. Appears reasonable.

Reconciliation Process Detail of DAC for PSPs

The Payphone Service Providers submit their ANI information either directly to LCI or through aggregators and IXCs. PSPs are able to make claims against the current and prior 6 quarters.

Locus updates existing ANI look-up tables with new invoices sent in each quarter by the carriers/PSPs for changes to the information and disconnects that are processed each quarter. An in-house program has been created for use in processing the disconnect files and updates to the ANI data before it is run against the CDRs. Appears reasonable..

Locus then runs the updated ANIs against the CDRs for the quarter to match ANIs, and the payphone detail reports are created. The reports created are stored and archived to CD. All the invoices are processed together as one look-up table to prevent duplicate payment for a dual-paid ANI. Calls are sorted into categories by PSP, with compensation reports sorted by PSPs, or PSP aggregators. Unmatched claims, or calls with payphone flags that are unmatched, are kept in suspense account and run against prior quarter(s) submitted by LECs at the time of invoicing in case the PSP will make a later claim on them. Appears reasonable.

Discrepancies in ANI reporting, as when a number is claimed by more than one party are attempted to be resolved, first, by comparing the data from prior quarters, collected in the ANI Master List, in order to try and identify the owner. If there is no way to substantiate one claimant over another, the first claimant is paid. The PSP is then able to file a dispute with Locus by providing documentation of their claim.

ANI status report files are created for each PSP summarizing the ANI, and the amount paid, and the underlying carrier from which the call was transferred to Locus's switch, satisfying the reporting requirement to the PSP. Locus relies on the PSP aggregator filing claims to distribute payments to their constituency. If PSPs make claims directly to Locus, then Locus will compensate directly.

At any time during the quarter, the PSP aggregator or LEC may submit new information relating to the ownership of certain ANIs, and they are incorporated into the quarter being processed and run against the prior 6 quarters, as noted above.

Call Records

Locus Telecommunications ensures the completeness and accuracy of the call records through their CDR gathering process.

Locus Communications sells prepaid calling cards to end users and retailers that represent more than 70 different products across three underlying carriers. Each card is printed with the 800 number that the underlying carrier gives that program/product, and terminates those 800 calls to the Locus switch for processing. The Switch then authenticates the card using the unique PIN identifier, also printed on the card, and then attempts to place

the call to the terminating number using a routing mechanism. Thus, every call is really two calls, one inbound to the switch and one outbound from the switch at Locus.

Each 800 DNIS that hits the switch is preprogrammed to a single customer's account for a specific product. If an 800 number is dialed, sent over the carrier and the Locus switch does not recognize it, it is not processed by the switch. All 8XX calls that originate on the carrier's network are routed via LCR for termination of the dialed number.

Each of the switches is managed through a switch control host, which controls the actions of the switch and begins documenting the CDR with the receipt of the info-digit and ANI+DNIS. When calls are terminated, the CDR is recorded as complete and sent real-time to the database. For each CDR, the system generates fields to identify the origination and completion information on the call. These are set up through logic that is programmed into the Locus Telecommunications platform.

- Infodgt- Identifies the service originating the call. '07', '27', '70', '29' and sometimes '00' are the proper identifiers for payphone services.
- Payphone- Determines whether or not the call is eligible for payphone compensation. Re-originating calls, whereby the same customer hits the # key, or "pounds" to release his current call and make a new call, are also eligible for payphone compensation.
- Newcall- Indicates whether the call is an additional call being made on the same original dial, for which compensation is also required under FCC Order on Reconsideration, FCC 96-439.
- Rateddur- Indication that the call has actually been picked up by the receiving party. In many instances, the underlying carrier will invoice for delivered calls, which are calls that pass through their switch, but will not be able to determine whether the call has been completed. This is the main discrepancy that occurs in the LEC billing, and support for Locus Telecommunication's claim is based on this field. Locus's switches already maintain a completion flag field, which will be included in the Main database call summary reports. We note that the rate duration can be used to determine a complete call of greater than one second, thus internal controls are sufficient. Appears reasonable.

We note there are no dial-around fields since the caller has already selected Locus as the prepaid carrier, and Locus uses LCR criteria to route the end-user call. Appears reasonable. The switch control host will attempt completion for up to one minute before determining an incomplete call, which is recorded in the duration field.

The call records sent over are then run against the ANI invoice look-up tables for the quarter, and the calls are allocated to PSP and LEC, as required. Quarterly reports are generated 65 days after the quarter close to indicating what is being paid out to the LECs, IXCs and the aggregators on behalf of the PSPs.

When PSP payments are approved via the report, the payment schedule files are used to create a spreadsheet that is sent to the Accounting Department to process payment. The files are also used to create payment summary reports that are sent to the PSPs with their check.

Once payments are sent, the CDRs are marked as paid in the system, archived and closed out of the open item reports, thus recording which calls have been paid upon and which remain outstanding due to no claims or disputes. Disputed calls are generally paid to the vendor of record, where prior claims can be used to determine status. *All NO CLAIM* calls, where the CDR reflects an ANI that is not appearing on any invoice are accrued into an open item report for possible prior quarter billing through to the FCC required statute of limitations. Appears reasonable.

When a quarter becomes ineligible for payment request due to expiration of the statute,, unpaid Call Records are marked as Expired on the open item report, and all unclaimed call records are expired by the program Appears reasonable. For quarters ending prior to July 1, 2004, Tony Kim, notes that Locus was generally overbilled by the carriers, as they cannot discern complete v. incomplete call records. As such, expiration of unclaimed calls was not an issue.

Quarterly information is stored forever. Stored databases at Locus will be analyzed periodically to ensure that the data remains intact.

Disputes

If a PSP or aggregator has a dispute about the payment made, the PSP can request that its original file (or a newly submitted file) be checked in greater detail. As stated above, most disputes are related to either ANI ownership or incomplete calls. Locus has a process by which they will request the disputing PSP provide ownership documentation and submit signed documentation from both the overpaid and the underpaid parties that agree upon the ownership of the payphone. If this information is not available, Locus will request that the PSP involve the LEC to try to obtain additional information and resolution. Appears reasonable.

Locus Telecommunications historically has disputes that result from billing of incomplete calls, and resolves them in the following way: Send the LEC the complete payphone reports with complete call detail records to indicate the calls being compensated. We note that incomplete calls might also be helpful for validation of liability, and suggested that they run this report as well, although the reconciliation process meets standard requirements. Appears reasonable.

For prior quarters still under management at Locus Telecommunications, Locus continues to manage based on the billing issues relating to DAC. However, per discussion with Tony Kim, there are no outstanding issues as of June 30, 2004 that is not simply standard credit delays.

Internal Controls

Control Environment and Organizational Chart

Phil Shin, Senior Manager, Switch and Network, is responsible for programming the switches and the switch control hosts, and ensuring that the network remains up and running. Only 5 people have access to the switch interfaces and the database, including Mr. JH Park, Senior Manager, Database and Software Development, and Mr. Young Ho Chun, Manager, MIS. Mr. Park programs the system to locate info digits and other information relevant to the DAC system. All access is limited to specific tasks, user-profiled, and secure. Personnel with programming access for the database are not the same as personnel with network control. Only Mr. Park has access to change payphone logic.

Tony Kim receives the invoices from the PSPs or PSP representatives, and forwards the invoices to Mr. Chun for processing. The invoice disks are updated by Mr. Park's staff for changes in ownership and disconnect, and then are processed against the downloaded CDRs. The invoice payment report is sent to Tony Kim for review, who reviews the reports before sending them out to ensure that they appear materially accurate and that there are no large or unusual aspects to the report before they are sent over. If there are discrepancies, Mr. Chun is asked to rerun the report, and then the report is reviewed manually. Sam Lee, Controller, then processes for payment via wire transfer.

The payment detail report is received within 65 days after the quarter end, it is reviewed by Tony Kim and is both trended against prior quarters for reasonableness and reconciled against summary monthly reports on payphone records collected. Additionally, a completeness percentage report is run to ensure that the percentage of call complete trends accurately from one quarter to the next. Payments are made to the PSPs by the end of the month. As approval and preparation of reporting information are kept separate, there appears to be little room for internal employee fraud outside of collusion. Invoices from the PSP are due by 30 days after the quarter end, so that the PSP can be paid by the last day of the next quarter. Appears reasonable.

We note that the Locus reconciliation process and the overall integrity of the DAC system rely on several internal controls to ensure the integrity of the system. These controls are communicated and complied with by Locus Telecommunications in the following:

General Contract and Regulatory Requirements

Locus has warranted via letter signed by senior staff that the company and their representatives are responsible for maintaining compliance with laws, regulations, tariffs, and other general requirements in the course of doing business. Locus

Telecommunications has provided documentation that they recognize these requirements and understand their responsibilities to comply with them. The integrity of the compensation system requires that Locus remain in compliance with all their attestations under the agreement. We also obtained and reviewed an executed copy of this letter, which indicates that the parties understand their obligations. Appears reasonable.

Access Controls

Locus Telecommunications has maintained sufficient controls over who has access to switch and the reporting systems and under which circumstances changes and updates can be performed. The controls in place include:

- Limited access to switch and reconciliation processes
- Segregation of duties among report generation, reconciliation, and payment approval

Appears reasonable.

File Completeness and Timeliness

Locus Telecommunications provides complete files, including completed call records for payphone originated calls, and are responsible for the completeness, accuracy, and timeliness of the call record files. The controls in place to provide such files are:

- Payphone logic that is standardized and verified
- Easily tracked sorting and filtering parameters
- Verification field in the reports
- Monthly reports generated by Information Systems on the 3rd of the subsequent month

Payment Authorization

Locus Telecommunications reviews reports for reasonableness and makes payments to PSPs and aggregators from the summary payment documents submitted Proper approval of payment is controlled by Sam Lee, Controller.

Completeness of Records Processed

The switches collect data that is transferred into the database real time, and tags all information to ensure that the transfer is complete. Locus does not filter the CDRs for payphone flag, but processes the ANI look-up tables against all CDRs for ANI matches. Completion rates are tracked to ensure that the trend of call completion is consistent. Appears reasonable.

Dispute Resolution

The FCC requires that a standardized process be in place to settle disputes that is data reliant. In the case of disputes arising, Locus Telecommunications requires consensual documentation from all interested parties that the resolution is fair and accepted. PSPs

and their aggregators are required to provide whatever detail support may be necessary to validate any particular claim against a CDR or its DAC status. Appears reasonable.

Payment Rate

All Locus Telecommunications customers use the default rate with their PSPs, and there are no exceptions. The rate changed on September 27, 2004, so that the 3rd quarter reporting includes both new and old rates, dependent on the date of the call. Because the reconciliation is done quarterly and each CDR is time and date stamped, the rate calculations are performed on the individual CDR. Internal controls testing relating to rate verification include validating on Locus's summary report that all calls are included at the .24/.49 per eligible call rate.

Fraudulent Call ID

Locus Telecommunications relies on the authentication of the call via the PIN. Since the card must be purchased in order to be used, the hidden PIN authenticates the user as a purchaser of the prepaid phone service, and has its own limitations in the amount of service available on that card. Thus, threshold per ANI are not considered necessary, and all completed calls made from a payphone are considered compensable. Appears reasonable.

Contingency Procedures

The switch information and CDRs are backed in internally in the switch control host if connection between the Switch database and switch is broken. The Switch databases back up to the Main database in the main server, and communications failure between these two systems resets the system to reload any untagged CDRs. Appears reasonable. Reconciliation processes are automatic, but do not require special services or systems to perform, since the reconciliation is performed between raw data CDRs and billed ANIs in a lookup table. Third party LEC verification of PSPs is still required in order to validate proper ownership of the ANI.

Section 2: Significant Control Objectives

The principal objectives of the system of internal controls pertaining to recordkeeping, reporting, and payment verification are as follows:

- Policies and procedures are in place to ensure payment rates conform to FCC rules, either by default or as agreed to between parties.
- Policies and procedures are in place relating to reporting elements as required by FCC Order.
- Data is stored for a period at least as long as required by FCC rules.
- Procedures are in place to establish, corroborate and validate proper PSP ownership SBR
- System reporting for all eligible calls is both accurate and complete
- Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to Locus system requirements.
- Specific personnel has been identified for verifying compensation to PSPs
- Specific personnel has been identified for handling dispute resolution with PSPs
- Quarterly reports verified for payphone call counts, PSP identities, numbers called, and infodigits.
- Procedures are in place to identify and investigate potentially fraudulent calls and resolution.
- Polices and procedures are in place to properly compensate all compensable calls originated from validated payphone ANIs. In addition, such reports are maintained for the period required by the FCC.
- Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes, ensuring that the changes do not negatively affect integrity of the records processed or the results of processing such records.

Description of Controls and Tests Performed

Our test of the effectiveness of the policies, procedures, and controls included tests we considered necessary to evaluate whether those controls, and the extent of the compliance with them, is sufficient to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period between July 1, 2004 and September 30, 2004. Our tests of the operational effectiveness of controls were designed to cover the period from July 1, 2004 through September 30, 2004.

Test procedures performed in connection with determining the operational effectiveness of controls are described as follows:

1. Corroborative inquiry – Made inquires of appropriate personnel and corroborated responses with other personnel to ascertain the compliance of controls.

2. Observation – Observed application of specific controls.

3. Inspection of evidentiary material– Inspected documents and reports indicating the performance of the systems and controls.

4. Transaction testing – Used reports to recreate and document controls.

Key Control Objectives

Key Control Objective #1

Payment rates can either be based on a rate negotiated between the user and the PSP or the FCC default rate.

Tests Performed

1) Locus calculates their DAC obligations based on the rates negotiated between the SBR and the PSP, or where applicable, the rates included in FCC Order 96-128. Per discussion with Tony Kim, there are no agreements for alternative rates with PSPs. All rates at this point are the FCC default rate, which is currently .49 cents per compensable call.

   We reviewed the DAC summary reports, noting that the calls paid for the quarter for PSPs of carriers processed by Locus were at the default rate(s) of .24/.49, based on the date. We reviewed the detail to ensure that those calls after the September 26, 2004, were all at .49 per call. Appears reasonable.

2) For the remainder of the PSPs and PSP representatives, we reviewed the reconciliation Locus performed against the invoices, noting that discrepancies were

based on number of calls, but that every carrier is paid a minimum of .24 per compensable call. We found no exceptions. Excess payments may exist where the PSP or PSP representatives charges to invoice Locus Telecommunications and process payment to PSPs, and for calls after September 26, 2004. Appears reasonable.

Key Control Objective #2

Policies and procedures are in place relating to reporting elements as required in by FCC Order.

Policy or Procedure

Per discussion with Tony Kim, Accountant-Tax and Compliance, reports are prepared on a quarterly basis for use by LECs, SBRs, and PSPs detailing the calls that originate by ANI, the amount paid per ANI, and carrier IDs. Additional reports may be constructed for any party including ANI Master Lists, potentially fraudulent calls, dispute items, and other, as deemed necessary by any party in accordance with FCC rules.

Tests Performed

1) We reviewed the reports that were provided by Locus, noting that they were reconciled against switch reports and ANIs invoiced.

2) For the category "unclaimed ANIs", we noted that the detail for these calls was provide for accrual and investigation purposes.

Key Objective #3

Data is stored for a period at least as long as required by FCC rules.

Policy or Procedure

Through interviews with key personnel, we noted that all records are kept on the switch platform for three months, and live in the database for four months. All CDRs are downloaded each month to text files, compressed and stored on CDs. Duplicate copies are made and kept forever. Data integrity on the CDs are tested the month after back-up, but not after that. Regular testing of the back-up data, including uploading 6 month-old data to an archive server and restoring the data to a server which is running the database program, will be performed regularly.

Key Objective #4

Procedures are in place to establish proper PSP ownership

Policy or Procedure

Locus Telecommunications has only recently begun dealing with the PSP directly, and thus validates PSP ownership using an ANI Master List created from the information provided by the PSP. This information is used to try to determine proper ownership for DAC, however, in cases where it is impossible to determine the proper owner, the first owner is paid, and any PSP not compensated is notified of the dispute, the PSP ID of the owner that was paid, and given procedures to dispute the payment, using LEC validation, ownership records, and other supporting documentation.

Test Performed

1) We interviewed relevant personnel to determine the validation procedures in place
2) We tested duplicate claims to determine that the procedures of paying the first claimant were consistent and reasonable.
3) We reviewed the notification and dispute procedures in place for alternative claimants, noting that they are informed of all relevant information relating to the duplicate nature of their claim.
4) We identified development of an ANI Master List and its use in validating the claims of individual ANI owners.

Key Objective #5

System reporting for all eligible calls is both accurate and complete.

Policy or Procedure

Because Locus runs the ANI look-up tables against all CDR records for the quarter, the payphone flag is not used as a filtering system that might remove potentially compensable calls. Since Locus is a pure coin-less facilities-based reseller, all completed calls with matching ANIs are considered compensable. These programs produce a matched report, which is then sorted for consistency with the APCC reporting requirements, and used to substantiate the payment. There are no discrepancies. The CDRs are also reviewed to ensure that the completion rate for all calls and the completion rate for DAC calls from prior quarters are consistent with the current DAC completion rate. Payphone reports are validated and or created before wire funds are transferred in payment.

Tests Performed

1) We interviewed personnel responsible for various aspects of the reconciliation process, including key personnel at Locus to gain an understanding of the process and the internal control environment. Appears reasonable.

2) We reviewed the payphone logic and determined that the field parameters are sound .

3) We statistically sampled calls from the original switch CDRs to the Main database CDRs for those dates, and then to the payphone compensation reports generated for ultimate payment. For our sample, we noted that the entire sample of proper info-digit calls appeared correctly on the database report, and that the calls sampled from the database report appear properly on the Locus report.

Key Objective #6

Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to Locus Telecommunication's system requirements.

Specific personnel has been identified for verifying compensation to PSPs

Specific personnel has been identified for handling dispute resolution with PSPs

Policy or Procedure

Locus Telecommunications has substantially segregated and assigned responsibility for drafting and maintaining necessary business requirements, like switch program logic, report preparation and formatting, validation of payment to PSPs and validation of reporting to various parties within the Locus Telecommunications organization.

Tests Performed

We interviewed various personnel to understand their roles in the DAC process, noting:

1) That Phil Shin, is responsible for all the validity of the initial CDRs

2) That Young Ho Chun runs the quarterly report in the database for comparison to the ANI invoices of the PSPs

3) *That Tony Kim, Compliance reviews the call records that were sent for payment validation to be consistent with the payphone info-digit CDRs that are presented through the switch originally*

4) That Sam Lee authorizes the wire transfer for PSP payment after review of the report sent by Tony Kim

5) That Tony Kim is responsible for dispute resolution with carrier-customers and their PSPs, generating CDRs and reports that are used in dispute resolution, most often to validate the claims of incomplete calls that indicate a non-compensable call.

Appears reasonable.

Key Objective #7

Quarterly reports are verified for payphone call counts, PSP identities, numbers called, and infodigits.

Policy or Procedure

Locus Telecommunications uses switch CDRs to compare to ANI invoices from PSPs and generate payments for compensable calls. Locus keeps monthly files of CDRs with payphone flags, ANIs, numbers called and infodigits so that originated calls with eligible DAC can be determined, and validated ANIs, non-validated ANIs, potentially fraudulent calls and calls with ownership issues can be identified.

Tests Performed

With the exception of ANI ownership testing, quarterly reports are reviewed for pertinent information and exceptions and unusual items are pulled for further investigation. We reviewed two quarters of reconciliation to determine the basis for disputes, which were carrier invoices denied for incomplete calls. We recommended that Locus undertake a reconciliation of calls to the underlying carrier invoice, producing a report of incomplete calls. Appears reasonable.

We tested the quarterly reports against the statistical sampling of data for the quarter, noting that the information from the CDRs was captured accurately as compensable or non-compensable calls. No exceptions.

Key Control Objective #8

Procedures are in place to identify and investigate potentially fraudulent calls and are resolved.

Policy or Procedure

All calls passed to the Locus Telecommunications switches required a PIN authentication and are limited in their abuse, given the nature of the prepaid phone card. Locus does not undertake any significant fraud testing, given the nature of the prepaid calling card debit process.

Tests Performed

We inquired of personnel whether any fraudulent usage had yet been identified, and there has been no abuse or customer service complaints relating to non-authorized calls. Given the pre-use authentication required, appears reasonable.

Key Control Objective #9

Polices and procedures are in place to properly compensate all compensable calls originated from validated payphone ANIs. In addition, such reports are maintained for the period required by the FCC .

Policy or Procedure

See the narrative on DAC reconciliation and payment process above for greater detail. In summary, CDRs from the switch are sorted for info-digits (not payphone flags) and matching ANIs, and these records are summarized in the appropriate format for the PSP or aggregator. A summary report filtered by payphone flag field is not created, and the raw CDR data is used for determining compensable calls. LEC information related to ANI ownership is gathered, where provided. The results are tested for consistency with historic completion rates. Locus Telecommunications reviews the report before wiring funds for payment of the PSP.

All data is stored on CD on-site, and three months are stored live on the system. Per discussion with key personnel, this data will be taken out and restored to an active, but not live, server to test control totals and ensure that the call records remain unchanged.

Tests Performed

1) We interviewed personnel responsible for various aspects of the reconciliation process, including key personnel at Locus to gain an understanding of the process and the internal control environment. Appears reasonable.

2) We statistically sampled calls from the original CDR for those dates to the payphone reports generated for PSP payment, noting that the entire sample of payphone flagged calls tested appears on the Locus compensation report.

Key Control Objective #10

Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes, ensuring that the changes do not negatively affect integrity of the records processed or the results of processing such records.

Policy or Procedure

Locus Telecommunications has established policies and procedures regarding system changes, including specific policies regarding:

- System change approval
- Identification of responsible persons
- System security controls
- Program security controls
- Capabilities to test changes and compare to known results

Tests Performed

We interviewed key personnel and reviewed the logic associated with generating payphone flags, as well as authentication of calls and completed calls. We reviewed documentation with regard to the above and noted that it was consistent with stated policy. Appears reasonable.